

Message Text

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ACTION NEA-10

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E.O. 11652: N/A
TAGS: EFIN, EINV, EG
SUBJ: INVESTMENT AUTHORITY ANNOUNCES POLICY ON JOINT
- VENTURE BANKS

1. CAIRO DAILY AL GUMHURIYYA FOR AUGUST 27 CARRIED REPORT
THAT GOE INVESTMENT AUTHORITY WILL NO LONGER APPROVE
APPLICATIONS FOR ESTABLISHMENT OF CERTAIN TYPES OF PROJECTS,
INCLUDING "FOREIGN BANKS". STORY CITES "ANNOUNCEMENT" TO
THIS EFFECT BY INVESTMENT AUTHORITY DEPUTY CHAIRMAN GAMAL
EL NAZER.

2. IN BRIEF DISCUSSION WITH EMBOFF ON MATTER AUGUST 28
EL NAZER INDICATED THAT NEWS ACCOUNT OVERSTATED INVESTMENT
AUTHORITY POSITION ON THIS MATTER. HE SAID HE HAD TOLD
REPORTER THAT AUTHORITY CONSTANTLY REVIEWS ACTUAL NEEDS OF
ECONOMY IN MAKING DECISION ON PROJECT APPROVALS. AT
PRESENT, HE SAID, AUTHORITY BELIEVES THAT NUMBER OF FOREIGN
JOINT VENTURE BANKS CURRENTLY OPERATING IN EGYPT IS
SUFFICIENT TO MEET NEEDS OF ECONOMY. THIS DOES NOT
REFLECT, HOWEVER, ANY ADVERSE GOE VIEW ABOUT VALUE OF
FOREIGN BANKS IN GENERAL. MOREOVER, IT IS NOT A HARD AND
FAST RULE THAT NO NEW APPLICATIONS FOR JOINT VENTURE BANKS
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WILL BE APPROVED. QUESTION, AS WITH RESPECT TO ALL
PROJECTS, IS WHAT CONTRIBUTION SUCH NEW BANK WOULD MAKE TO
ECONOMY. EL NAZER NOTED, AS EXAMPLE, THAT IF APPLICATION
FOR JOINT VENTURE WERE RECEIVED FROM BANK IN COUNTRY OF
MAJOR FINANCIAL IMPORTANCE BUT NOT NOW REPRESENTED IN JOINT
VENTURE BANK HERE, APPLICATION WOULD PROBABLY BE APPROVED.

3. EL NAZER SAID RESTRICTIVE POLICY WOULD APPLY ONLY TO APPLICATIONS FOR NEW JOINT-VENTURE BANKS. APPLICATIONS TO ESTABLISH OFFSHORE BRANCHES OF BANKS WILL NOT ENCOUNTER ANY PARTICULAR DIFFICULTY.

4. COMMENT: RUMORS THAT GOE INTENDED RESTRICT EXPANSION OF FOREIGN BANKING SECTOR HAVE BEEN CIRCULATING FOR SOME TIME. FOREIGN BANKING OPERATIONS HAVE BEEN SUBJECT OF CONSIDERABLE CRITICISM HERE FOR, INTER ALIA, HIGH PROFIT MARGINS (INCOME STATEMENTS OF JOINT VENTURE BANKS ARE AVAILABLE TO PUBLIC) AND ALLEGED FAILURE TO PROVIDE TERM LOANS FOR LOCAL INVESTMENT PROJECTS. IN DISCUSSION WITH EMBOFF, EL NAZER ATTEMPTED DOWNPLAY SIGNIFICANCE OF NEW POLICY BY CHARACTERIZING IT AS PART OF NORMAL PROCESS OF REVIEWING INVESTMENT PROPOSALS IN LIGHT OF CONTRIBUTION TO ECONOMY. HOWEVER, HIS COMMENTS ARE PERHAPS THE FIRST DECLARATION FROM AN EGYPTIAN OFFICIAL THAT GOE VIEWS FOREIGN JOINT VENTURE BANKING AS A "SATURATED" SECTOR AND THAT, ALTHOUGH SOME EXCEPTIONS WILL BE MADE, NEW APPLICATIONS IN THIS FIELD WILL FACE ROUGH SLEDDING AT INVESTMENT AUTHORITY. EL NAZER REMARK THAT OFFSHORE BRANCHES OF FOREIGN BANKS WOULD NOT BE AFFECTED BY RESTRICTIVE POLICY AND WOULD BE APPROVED WITHOUT SPECIAL DIFFICULTY IS SOMEWHAT SURPRISING. BRANCHES HAVE IN SOME CASES HAVE BEEN TARGETS OF EVEN GREATER CRITICISM THAN JOINT VENTURE BANKS, SINCE THEY OPERATE WITH LESS LIMITED OFFICIAL USE

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GOE CONTROL AND HAVE, IT IS ARGUED, NO REAL INVESTMENT STAKE HERE.

5. OUR LOCAL CONTACTS INDICATE U.S. BANKERS HAVE SOMEWHAT MIXED VIEW ABOUT PRESS ANNOUNCEMENT. SOME NOTED THAT AS A GROUP THEY HAD ENCOURAGED INVESTMENT AUTHORITY TO PUT BRAKE ON FURTHER PROLIFERATION OF FX BRANCHES WHICH DO HIGH PERCENTAGE OF BUSINESS WITH OTHER BANKS-- I.E., CORRESPONDENT SERVICES AND SECONDARY TRADE FINANCING--, REAPING GOOD PROFITS WITH MINIMUM INVESTMENT BEYOND OFFICE OVERHEAD. CONSENSUS OF BANKING COMMUNITY ITSELF IS THAT EGYPT MAY ALREADY BE OVERBANKED. SOME CONTACTS SUGGEST THAT ACTION AGAINST JOINT VENTURE BANKS MAY BE RESULT OF EFFECTIVE PRESSURE FROM NATIONALIZED BANKS, WHICH PRESUMABLY PERCEIVE MORE DIRECT MARKET THREAT FROM THESE OPERATIONS THAN FROM FX BRANCHES. OTHERS WONDER IF REPORT MAY BE MORE A GENERAL POLICY STATEMENT, BUT ONE WITHOUT INTENT OF SERIOUS IMPLEMENTATION EFFORTS ON PART OF GOE. AS CASE IN POINT, LOCAL BANKERS NOTED INFORMAL ASSURANCE FROM INVESTMENT AUTHORITY THAT NO NEW FX BRANCHES WOULD BE APPROVED IN 1978; SHORTLY THEREAFTER BANK OF OMAN, LTD., WAS GIVEN AUTHORITY TO OPEN. IN

GENERAL, THEY BELIEVE JOINT VENTURE APPLICATIONS FROM
BANKS NOT ALREADY ACTIVE IN MARKET MAY NOT BE READILY
APPROVED, BUT BANKS WITH FX BRANCHES HERE MAY NOT HAVE
PROBLEM SHOULD THEY SEEK JOINT VENTURE STATUS.
MATTHEWS

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